Service Date: January 6, 1989

DEPARTMENT OF PUBLIC SERVICE REGULATION
BEFORE THE PUBLIC SERVICE COMMISSION
OF THE STATE OF MONTANA

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IN THE MATTER Of The Application Of The MONTANA POWER COMPANY's Unreflected Gas Cost Account Balance As Of August 31, 1988, Its Gas Tracking Proposal For The Period September 1, 1988 to August 31, 1989, and IMR Differential Recovery.	UTILITY DIVISION DOCKET NOS. 88.11.46 and 88.11.47 INTERIM ORDER NO. 5388

FINDINGS OF FACT

1. On November 17, 1988, the Montana Power Company (MPC) filed its annual gas tracking application, which was denominated Docket No. 88.11.46 The filing seeks approval of deferred gas costs as well as a gas cost for purposes of computing the base cost of gas for the ensuing period. In addition to the annual tracker, MPC filed testimony and exhibits in Docket No. 88.11.47. It seeks to recover balances which have accrued because of the difference between sales made at the Interruptible Market Retention (IMR) rate and interruptible industrial gas rate.

2. The rate and revenue impacts of the filings are as follows:

3. With respect to the above schedule, the Commission notes the following:

A. Once again, an overcollection exists in the deferred account. However, when offset by the IMR balance, a rate deficiency has resulted. Additionally, MPC estimates it has been undercollecting since September, 1988. Therefore, it seems that the end result in this instance is balanced. However, the PSC intends to monitor this situation, particularly the IMR effect after the issuance of the gas rate design order.

B. Both the 34% tax rate and new capital cost of 10.34% have been incorporated in calculations of rate base effects of various amortizations.

C. MPC's "A&S and Energy Oils" and "Severance Tax and Working Interest" prospective adjustments to compensate for a declining market are proper for interim purposes.

D. Inclusion of 90% of the IMR revenue differential is consistent with previous interim orders. The IMR revenue differential amount of $2,457,019 includes a remaining balance from last year of ($75,595), rounding adjustment of ($12,654), a balance for the 12 months ended 8/31/88 of $3,059,172 and a net Natural Gas Incentive (NGI) revenue offset of ($513,904). When grossed up to the 100% level, the 8/31/88 balance is $3,399,079. This amount results from below otherwise applicable tariff sales to Stauffer (388,494 Mcf @ 14.9), Stone Container (1,810,039 Mcf @ 14.9), Prizer (243,630 Mcf @ 14.9), MSU (294,353 Mcf @ 14.9) and Columbia Falls Aluminum (70,614 Mcf @ 14.9). The deviation ranges from about $.003/Mcf to about $1.603/Mcf. This deviation is indicative, but not determinative of MPC's intent to maximize revenues from these sales, thereby insuring that other ratepayers won't be required to unduly subsidize these customers.

4. MPC seeks current gas cost recovery according to the following mix:

5. The Commission notes that the Canadian gas mix is becoming ever more dependent on purchase gas, as opposed to royalty gas. The cost of the purchase gas approximates the cost of the .77 Bcf of "spot" gas that was included in MPC overall mix during the tracking period which ended 8/31/86. The PSC found that purchase to be in the public interest. Also, in interim Order No. 5301, the PSC found: "The Commission is also aware, however, that the price of Aden purchased gas has declined to about $1.13/Mcf @ 14.9. Additional purchases of this relatively cheap source would allow the preservation of royalty gas, both Montana and Canadian, for future ratepayers. The Commission expects, however, that a complete explanation will be forthcoming before any final order in Docket No. 87.10.58 is issued." Order No. 5301, Para 7C.

6. One of the PSC's concern's with regard to the finding quoted is that, should some type of transportation arrangement be allowed in Docket No. 87.8.38, the benefits of the royalty gas referred to may not be available. Given this premise, ratepayers would have incurred higher gas rates than would have been necessary. Accordingly, before any transportation arrangement is

considered, the issue of accrued ratepayer benefits must be addressed.

7. Another PSC concern is the magnitude of potential gas purchases in the Aden fields. If they are akin to those found available in the Williston Basin, the PSC is concerned. It is apparent that MPC's wholly owned subsidiary, Roan Resources, who also has pipeline capacity in the Aden fields, is taking a cautious approach. The PSC urges MPC's gas utility to follow a careful, and considered approach in this situation. As an aside, the PSC also questions the rationale behind the presence of Roan facilities in this traditional utility area.

8. For interim purposes, the Commission finds the unit increases per Mcf as shown in Finding No. 2 to be proper. By reference, approval of these increases signify interim approval of:

A. The September 1, 1987 through August 31, 1988 gas supply operation, and associated Unreflected Gas Cost Account Balance and its adjustments as of August 31, 1988, and its amortization in rates;

B. The projected tracking market for the 12-month period ending August 31, 1989;

C. The projected sources of supply anticipated to be used to serve this same tracking market;

D. The cost of the supply to serve the projected tracking market;

E. Cancellation of the unit amortization included in the current gas rate schedules, as provided for in the proposed rate schedules, and the transfer of the estimated remaining balance as of September 1, 1988, to the Unreflected Gas Cost Account Balance for the 12-month period ending August 31, 1988, for amortization over the next 12-month period;

F. The revenue requirement adjustment associated with the continuing amortization of the A&S and Energy Oils Settlement;

G. The revenue requirement adjustment associated with the continuing amortization of the Severance Tax and Working Interest Settlements;

H. The revenue requirement adjustment associated with the continuing amortization of the Bold-Fogelson Settlement;

I. The basic unit amortization change of the A&S and Energy Oils Settlement 5-year amortization, and the basic unit amortization charge of the severance tax and working interest settlement 5-year amortization both caused by the lower tracking market;

J. The September 1, 1987 through August 31, 1988 ninety percent (90%) IMR Revenue Differential Balance, and the associated adjustment as of August 31, 1988, and its recovery in rates.

K. Cancellation of the unit amortization included in the current rate schedules as provided for in the proposed rate schedules, the transfer of the estimated remaining balance as of September 1, 1988 to the ninety percent (90%) IMR Revenue Differential Balance for the 12-month period ending August 31, 1988, for amortization over the next 12 months.

CONCLUSIONS OF LAW

1. Montana Power Company is a corporation providing gas services within the State of Montana, and, as such, is a "public utility" within the meaning of Section 69-3-101, MCA.

2, The Commission properly exercises jurisdiction over Montana Power company's natural gas utility operations under Title 69, Chapter 3, MCA.

3. The Commission may approve increases or decreases in rates on an interim basis, pending a hearing on the merits (69-3-304).

ORDER

1. The Commission orders Montana Power Company to file rate schedules reflective of the Findings of Fact above to be effective for services rendered on and after January 1, 1989.

2. A notice of opportunity for public hearing will be issued in the future to allow parties the option of pursuing items of interest to them.

3. Any refunds shall include interest calculated at Montana Power Company's return on equity.

DONE AND DATED at Helena, Montana this 23, day of December, 1988, by a 4 - 0 vote.

BY ORDER OF THE MONTANA PUBLIC SERVICE COMMISSION

CLYDE JARVIS, Chairman

HOWARD L. ELLIS, Vice Chairman

JOHN B. DRISCOLL, Commissioner

DANNY OBERG, Commissioner

ATTEST:

Ann Peck
Commission Secretary

(SEAL)

NOTE: Any interested party may request that the Commission reconsider this decision. A motion to reconsider must be filed within ten (10) days. See ARM 38.2.4806.